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Financial reports and audited financial statements, and reports of the Board of Auditors

Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations

Report of the Board of Auditors on the accounts of the United Nations peacekeeping operations for the financial period ended 30 June 2005

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Board of Auditors on the accounts of the United Nations peacekeeping operations for the financial period ended 30 June 2005 (A/60/5 (Vol. II), chap. II). During its consideration of the report, the Advisory Committee met with members of the Audit Operations Committee, who provided additional information and clarification. The Committee also had before it the report of the Secretary-General on the implementation of the recommendations of the Board of Auditors concerning United Nations peacekeeping operations for the period ended 30 June 2005 (A/60/691).

2. The present report will address general issues related to the findings of the Board of Auditors. The Advisory Committee will take into account the Board's comments on specific peacekeeping operations when it considers the performance reports and budgets of those missions. In addition, in its general report on peacekeeping operations, the Committee will make detailed observations and recommendations on some of the cross-cutting issues also dealt with by the Board.

3. The Board's audit covered:

(a) Headquarters operations;

(b) Fourteen active field missions;

(c) One active field mission that was not visited because of the security situation;

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(d) The United Nations Logistics Base at Brindisi, Italy;

(e) Twenty-two completed missions;

(f) One liquidated mission;

(g) The Peacekeeping Reserve Fund;

(h) The support account for peacekeeping operations.

The Board of Auditors also addressed requests made by the Advisory Committee and the General Assembly, as outlined in paragraph 5 of its report. The Board's main recommendations are summarized in paragraph 13 of the report.

4. The Board noted in paragraphs 15 to 20 of its report that during its audit a number of reviews involving peacekeeping operations were either under way or planned by other oversight bodies. As indicated in paragraph 17 of the report, "The Office of Internal Oversight Services planned to undertake a comprehensive management review" in the areas of: mission planning, to identify risks and exposure to duplication, fraud, abuse of authority, inefficiency and ineffectiveness; substantive operations in respect of rule of law, disarmament, demobilization, rehabilitation and reintegration, elections, human rights and mine action; information technology; human resources management; financial management and budgeting; procurement and supply; transport operations in two missions; and assessment of the Peacekeeping Best Practices Section. In addition, the Joint Inspection Unit was conducting an evaluation of the implementation of results-based budgeting in peacekeeping operations, and external consultants had been appointed by the Administration to make an assessment of the internal controls of the Procurement service. Accordingly, in order to avoid duplication of effort, the Board limited its performance-related coverage of the above-mentioned subjects to following up on the status of implementation of its previous recommendations in those areas.

5. The Board has rendered an unqualified audit opinion; however, in so doing, it has also drawn attention to the review of procurement activities being undertaken by the Office of Internal Oversight Services (OIOS) and to the internal controls review outsourced by the Administration. The Board stated that it is cognizant of the forensic audit commissioned by the Administration to expand on these reviews (see A/60/5 (Vol. II), chap. III). Upon request for clarification, the Advisory Committee was informed that a qualified opinion can be issued if there is a distortion of financial statements which is material or if there is a limitation on the scope of the audit. The Board determined that neither of those conditions pertained, as the above-mentioned reviews had not been finalized, nor had the results of the reviews been quantified. Members of the Audit Operations Committee expressed the view during the hearings with the Committee that, while the Board's review of management issues may have been somewhat limited by the other ongoing reviews, the ability of the Board to give an audit opinion had not been affected. Details on the different types of audit opinions are provided in the Committee's report of 30 September 2002 (see A/57/439, annex).

6. **The Advisory Committee commends the Board for its presentation of a clear and reader-friendly report. It welcomes, in particular, the inclusion of details concerning the age of recommendations which are either under implementation or have not been implemented (see A/60/5 (Vol. II), annex II).**

as recommended by the Committee in its report of 22 April 2005 (A/59/736, para. 8). The Committee notes, however, that the issue of the responsibility for setting the time frames for implementation of recommendations still has not been settled.

7. The Advisory Committee was informed that it was the Board's view that its involvement with the Administration should be limited to pointing out problems and that it was the responsibility of management to prioritize and set time frames for the implementation of recommendations. In this connection, the Committee recalls paragraph 11 of General Assembly resolution 60/234 of 23 December 2005, by which the Assembly requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to include in future reports on the implementation of the recommendations of the Board of Auditors information on the setting of time frames, the identification of office holders and priorities for the implementation of the recommendations of the Board. **The Committee trusts that this matter will be dealt with promptly.**

8. In paragraph 9 of its report, the Board confirmed that, with respect to the recommendations it had made in its report for the period ended 30 June 2003, there were no significant outstanding matters, except for those addressed in its current report. With regard to the period ended 30 June 2004, the Board reported in paragraph 10 that out of a total of 78 recommendations, 38 (49 per cent) had been implemented, while 35 (45 per cent) were under implementation and 5 (6 per cent) had not been implemented.

9. Members of the Audit Operations Committee cited numerous instances of unexplained non-compliance with manuals, guidelines and regulations, which in some cases have led to losses for the United Nations. Examples of non-compliance have included: failure to ensure that performance bonds were in place for a number of contracts; failure to establish vendor review committees; failure to submit a procurement plan; and failure to carry out the on-site aviation quality inspection before the award of a contract. **The Advisory Committee urges the Administration to take immediate action to prevent future non-compliance and to review current cases, as appropriate, so as to determine the persons accountable for the non-compliance.**

Financial issues

10. As noted in paragraphs 21 to 36 of the report of the Board of Auditors, the financial situation of the peacekeeping operations improved slightly in the financial year ended 30 June 2005. Total income for the year amounted to $4.5 billion, while expenditure totalled $4.1 billion. The increase in expenditure of approximately 41 per cent was principally attributable to the expanded operations of recently established missions. Outstanding assessed contributions amounted to $1.66 billion, an increase of 9 per cent over the previous financial year, resulting in a deterioration in the amount of cash available ($1.74 billion) to settle liabilities ($2.05 billion).

11. The Board noted that 42 per cent of the total amount owed had been outstanding for over one year and expressed its concern regarding the uncertainty of recovery of unpaid assessments, particularly for completed missions. This is relevant since the General Assembly has not made a provision for possible non-collection. The Board further noted that the non-payment of assessments seriously affects the ability of the Organization to meet its financial obligations, as it has a

negative impact on cash flows. During the 2004/05 financial period this has necessitated the borrowing of $125.5 million by three active missions from the accounts of closed missions.

12. In a related matter, the Advisory Committee was informed by the Audit Operations Committee that the adoption of the International Public Sector Accounting Standards (IPSAS), which the Secretary-General intends to seek from Member States in 2006 (see A/60/692, para. 75), would have significant implications for the United Nations, involving, among other things, the funding of after-service liabilities, the possibility of the financial statements reflecting negative equity, annual reporting cycles, a new enterprise resource planning system, and capitalization and depreciation of assets expenditure. The Committee enquired as to how this would affect the peacekeeping operations. In response, the Committee was informed that under IPSAS there would be a requirement, among other things, for a provision to write off unpaid assets which are deemed uncollectable. In addition, future peacekeeping financial statements would include a line for expendable and non-expendable equipment. For example, spare parts that are used during the financial period would be treated as expenses, while the remainder would be recorded as assets. Similarly, vehicle depreciation would be recorded as an expense. Under IPSAS, the financial statements would also disclose future staff-related costs, including after-service health insurance. Further, with regard to obligations, under the new standards, only the amount of goods and services actually received could be recorded as expenses, thus eliminating the necessity for cancellation of prior-period obligations. This would have the added advantage of curbing the tendency to accelerate expenditure in the fourth quarter of the financial period.

13. The Advisory Committee notes that cancellation of prior-period obligations has increased from $73.6 million in 2003/04 to $167.8 million in 2004/05 (A/60/5 (Vol. II), chap. II, para. 34). As stated by the Board, that may either be an indication of a need to improve budget planning and monitoring or of a risk that invalid obligations were initially raised, or a combination of the two. **The Committee shares the Board's concern regarding this matter and urges the Administration to take prompt action to implement measures to address any shortcomings.**

Procurement and contract management

14. For the reasons noted in paragraph 4 above, the Board confined its review of procurement and contract management issues in the peacekeeping operations to determining the status of implementation of its previous recommendations. Among other things, the Board noted in paragraph 68 that systems contracts were not allocated on an equitable geographical basis, opportunities for coordinated procurement at the local level had not been fully explored, vendor review committees had not been established in all missions, performance bonds had not always been obtained from contractors in accordance with procurement regulations, a vacancy rate of more than 10 per cent existed in respect of procurement staff at five missions, guidelines for the implementation of ethical principles for United Nations procurement staff were yet to be promulgated, the number of ex post facto cases submitted by missions to Headquarters were on the increase and the lead times for approval by the Headquarters Committee on Contracts were protracted.

15. With regard to registration of prospective local vendors, the Board noted that the Procurement Service had envisaged new technical evaluation procedures based

use a concept whereby a particular United Nations agency would take the lead in procurement activities within its area of expertise. The goal was to improve the quality of technical evaluation of prospective vendors by using expertise available within the system. The Board expressed concern that that approach could lead to inconsistency (see A/60/5 (Vol. II), chap. II, paras. 80 and 81) and expressed the view that a common framework or guidance was still required. **In the opinion of the Advisory Committee, the positions of the Administration and the Board are not necessarily mutually exclusive. In further developing this concept, the Administration should pay due attention to the concerns of the Board by issuing guidelines which would ensure that there is consistency in the relevant procedures to determine specific needs and to evaluate the ability of prospective vendors to meet those needs in a timely and cost-effective manner.**

16. As noted in paragraphs 94 to 99 of the Board's report, the failure to obtain performance bonds in a number of instances resulted in estimated additional costs to the United Nations of an amount in the order of $1.5 million (see also para. 9 above). Upon enquiry, the Advisory Committee was informed that the Board could determine no mitigating reason why the performance bonds were not obtained and that this appeared to be a case of pure non-compliance with procurement directives. **The Committee supports the Board's recommendation that performance bonds should be obtained in a timely manner and trusts that the Administration will thoroughly investigate the circumstances surrounding the cases mentioned by the Board and take appropriate action.**

17. As indicated in paragraph 100 of the report, there was an overall vacancy rate of 17 per cent in respect of procurement staff during the financial year 2004-05, which represented an improvement over the prior year. Further, there were three Chief Procurement Officer positions vacant as at 31 July 2005, of which two were vacant for over a year. The Board also pointed out that during the 2004-05 period the United Nations Stabilization Mission in Haiti had five successive Chief Procurement Officers or officers-in-charge from other missions.

18. As noted in paragraph 102 of the report, the Administration explained the difficulties in attracting and retaining procurement staff solely in terms of conditions of service, citing the requirement to recruit new staff principally on 100 series appointments of limited duration and the lack of a hardship element in the mission subsistence allowance as problems in that regard. However, in paragraph 168 of the Board's report, it was indicated that the Department of Peacekeeping Operations did not have a viable mechanism that would enable it to attribute difficulties in attracting candidates to the type of contract offered and that the Department had observed that "while anecdotal information indicates that the more favourable conditions of service offered by other organizations, including those in the United Nations common system, had an impact on the recruitment and retention of highly qualified personnel for peace operations, this information is difficult to document empirically". Furthermore, it was noted in the last sentence of paragraph 102 that the Department had stated that missions, in coordination with the Department's Personnel Management and Support Service, were actively recruiting staff for all vacant posts, and that significant progress had been achieved since the Board's audit in August 2005. **The Advisory Committee expects that the comprehensive report on conditions of field service to be submitted to the General Assembly at its sixty-first session (see General Assembly resolution 59/266, sect. V, para. 6) will contain a more analytical presentation of these and other issues.**

19. As noted in paragraphs 126 to 134 of the Board's report, cases of ex post facto approval of contracts had more than tripled, from 30 in 2003 to 97 in 2004. These were cases in which the administrative head of mission had made procurement awards in excess of the delegated procurement authority of $200,000 without prior presentation to the Procurement Service at Headquarters. Under the United Nations Procurement Manual, ex post facto presentations are permitted only in cases of exigency. As the Board noted, however, a number of presentations made to the Headquarters Committee on Contracts related to the extension of existing lease contracts, the expiration date of which was well known to the peacekeeping missions. Coupled with that problem was the lengthy lead time for contract approval by the Headquarters Committee on Contracts, which was noted by the Board in paragraphs 135 to 137 of its report. In the 15 cases sampled by the Board, lead times ranged from 7 to 461 days, or an average of 125 days per case. The average lead time between the date the submission was received by the Procurement Service and the date it was forwarded to the Headquarters Committee on Contracts was 55 days. Problems with the quality of the information provided by the missions could also have been a factor in the delay of approval. **In the view of the Advisory Committee, these problems may be related. If the approval process takes an inordinate amount of time, missions may be tempted to get around the system in whatever way they can. On the other hand, there can be little justification for ex post facto presentation for a need that can be predicted well in advance, such as the renewal of a lease. The Committee urges the Administration to take a fresh look at the entire process, including the issue of delegation of authority, giving due account to the need for strong accountability measures.**

Air operations

20. **The Advisory Committee welcomes the Board's thorough reporting on air operations in the peacekeeping operations, which will aid the Committee and the General Assembly in their examination of the peacekeeping performance reports and budgets.** In the paragraphs below, the Committee comments on a number of the Board's observations and recommendations. It will return to others in the context of its general report on peacekeeping operations.

21. The Board noted that the total air transportation budget for 2004-05 amounted to $419.5 million, while actual expenditure incurred totalled $371.2 million, for a budget implementation rate of 88.6 per cent. Of the 133,296 flight hours budgeted, a total of 42,323 hours, or 32 per cent, were not utilized, continuing a trend of what appears to be overbudgeting for air transportation costs. The Advisory Committee notes that the Department of Peacekeeping Operations has now moved from the commercial industry approach of block hours costing for air operations contracts to a costing structure whereby a basic monthly fee is paid plus a fee for every hour flown. As noted in paragraph 166 of the Board's report, all 62 new contracts entered into during the 2004-05 financial year utilized the new costing structure. The Committee was informed that it was the Department's contention that the savings realized in air operations were attributable to this new approach; however, no evaluation has been conducted to determine the effects and benefits, if any, of the new costing structure. The Committee has previously commented in some detail on this matter (see A/59/736, paras. 88 and 89). **The Committee believes that the Department has now had sufficient experience with implementing the new costing structure to be able to undertake a meaningful analysis of its impact. It**

therefore joins the Board in recommending that the Administration determine whether the change of air operations contracts to the new costing structure has resulted in savings or brought other benefits (A/60/5 (Vol. II), para. 168).

22. Among its other findings, the Board noted that only 43 per cent of air carriers awarded contracts in 2004/05 were subjected to the required on-site aviation quality inspection, two air carrier vendors, who were awarded seven contracts, went bankrupt during the period, and, on the basis of International Civil Aviation Organization benchmarks, aviation support staff was inadequate to manage the increased air fleet.

Regional cooperation

23. In paragraph 280 of its report, the Board of Auditors recommended that the Department of Peacekeeping Operations, in collaboration with the relevant peacekeeping missions, develop and implement regional coordination plans aligned to the missions' objectives. The Administration did not accept that recommendation, stating that "Inter-mission cooperation derives from mandated redress of issues directly related to regional cross-border interests, and is both in accordance with and constrained by the individual mission mandate, limitations on resource-sharing and operational priorities," and therefore that "A 'plan' for regional coordination is not appropriate." (A/60/691, para. 28).

24. The Advisory Committee has supported the concept of regional cooperation among peacekeeping operations in the past (see A/58/759, para. 104). Moreover, the Committee is aware of ongoing regional sharing and cooperation among missions, including, for example, the use of the logistics base in Entebbe, Uganda, by a number of missions in Africa and ad hoc cooperation between the United Nations Operation in Burundi and the United Nations Organization Mission in the Democratic Republic of the Congo in the sharing of air assets on a cost recovery basis. **While fully aware of the necessity to comply with mission mandates, the Committee does not understand the reluctance of the Administration to systematize cooperation through the development of appropriate plans instead of continuing to rely on ad hoc arrangements. In this connection, the Committee reiterates its recommendation that the Department of Peacekeeping Operations continue to explore ways to increase regional management of air assets (see A/59/736, para. 94) and also recommends that it coordinate with the Department of Political Affairs with a view to the sharing of assets between peacekeeping operations and special political missions. The Committee trusts that the next budget submissions will reflect such a common undertaking.**

Integrated missions

25. The Advisory Committee notes the Board's statement in paragraph 277 of its report that there was no formal definition to describe an integrated mission and that, as a result, the functions and structure of an integrated mission and the resulting roles and responsibilities of the various actors were not clearly understood. The Board went on to comment that the differences in mandates and objectives of a peacekeeping mission as compared to those of other United Nations entities remained one of the main obstacles affecting the success of an integrated mission. Differing funding methods (assessed or voluntary contributions) and reporting lines further complicated matters.

26. The Advisory Committee was informed that the Board was in the process of conducting a horizontal review of inter-agency coordination integrated missions, which was to be completed in July 2006. **The Advisory Committee looks forward to seeing the results of the Board's review.**

27. **The Advisory Committee shares the Board's view that the Administration should formalize the concept of integrated mission partnerships, determine their function, structure and role and finalize guiding principles, policies and guidelines to govern them. In so doing, attention should be given to establishing clear lines of accountability within the integrated mission concept.** As noted by the Board in paragraph 283, the work of the Peacebuilding Commission, which is to be established in accordance with the 2005 World Summit Outcome, may incorporate some aspects of this matter. Further, the Committee notes from the overview report of the Secretary-General on the financing of the United Nations peacekeeping operations (A/60/696, paras. 72-75) that, following a decision of the Policy Committee in July 2005, the Department of Peacekeeping Operations was tasked to lead an inter-agency review of the integrated mission planning process. Upon enquiry, the Committee was informed that the revised planning process was expected to be submitted to the Policy Committee in May 2006.

Support account

28. In its general report on peacekeeping operations in 2005, the Advisory Committee stated its view that the Board could make an essential contribution to a further analysis of how the support account has evolved to its current application and configuration and how it may further evolve. Accordingly, the Committee requested the Board to undertake an analysis of how fluctuations in the level of peacekeeping activities affect the level of required Headquarters backstopping, an analysis of which factors determine the level of required backstopping, and the delineation of functions as to what must be performed at Headquarters and what can be carried out in the field, as well as to look into the relationship between troop strength and the required civilian support component of a mission (see A/59/736, paras. 20 and 21). In paragraphs 299 to 308 of its report, the Board addressed these matters.

29. Statistics on the relation of civilian support staff to military and police personnel are given in paragraphs 304 to 306 of the Board's report. The Board pointed out that deviations in the statistical data as between missions could be explained in terms of differences in the mandates and resulting activities of the missions, the conditions and the size of the mission areas and the maturity of the missions. The Board believed that it would be meaningful, however, to analyse similar types of missions and recommended that the Administration prepare a consolidated performance report on peacekeeping operations, an analysis of civilian support provided to military operations, regional and inter-agency coordination efforts, Headquarters support functions and strategic imperatives. For its part, the Department of Peacekeeping Operations had indicated that it would consider the Board's recommendation in the context of its annual overview report.

30. The Advisory Committee notes that the information provided by the Board is mainly statistical in nature. **The Committee remains of the view that an analysis of the support account is needed along the lines of what is described in its previous report and that the Board is an appropriate entity to undertake this work. Accordingly, in its report on the support account, the Committee has**

requested the Board to undertake further analysis of the management and post and non-post resource issues related to the support account (see A/60/807).

Resident auditors

33. The Board indicated that most missions were of the view that the resident auditors added value and contributed to the Organization in a positive way, but that there was room for improvement (A/60/5 (Vol. II), chap. II, para. 379). Upon enquiry as to areas requiring improvement, the Advisory Committee was informed that there was a feeling that management was not always afforded adequate opportunity to respond to audit findings.

34. As noted in paragraph 383 of the Board's report, in accordance with OIOS recommendations, the current criteria for deploying resident auditors to peacekeeping missions is one resident auditor at the P-4 or P-5 level per $100 million of annual budgeted expenditure and one auditing assistant at the G-6 or G-7 level for missions with annual budgets exceeding $200 million. In the Board's view, budgeted expenditure is only one of the indicators that should be used in the allocation of resources; risk and complexity of operations must also be taken into account. The Advisory Committee supports the Board's recommendation that OIOS refine its basis for allocating resources for the audit of peacekeeping operations. **The Committee trusts that this matter will be addressed in the comprehensive review of governance arrangements and/or in the follow-up report to be submitted on investing in the United Nations (see A/60/735, paras. 7 and 8).** The Committee has also commented on this matter in its report on the support account (see A/60/807, para. 114).

Fraud and presumptive fraud

35. A total of 30 cases of fraud and presumptive fraud were reported to the Board for the financial period ended 30 June 2005. Only six cases were reported in the 2003/04 period. The Administration reported that in nine of the cases no loss was incurred by the United Nations, an estimated loss of $1,828,783 was incurred in respect of 17 and the extent of losses had not yet been determined in the remaining four. Members of the Audit Operations Committee expressed the view that the increase in the number of cases might not be solely attributable to a general increase in fraud, but rather could point to the effectiveness of the resident auditor system in uncovering incidents of fraud.

36. The Board also commented that those cases might not reflect the entire universe of fraud cases systemwide. In paragraph 404, the Board stated that it compared the list of cases of fraud or presumptive fraud reported by the United Nations Mission in Sierra Leone (UNAMSIL) with the list provided by Headquarters and found that 28 cases were reported by UNAMSIL, while Headquarters reported only 25 cases relating to UNAMSIL. The Board also found that two cases at the United Nations Mission in Ethiopia and Eritrea and 16 at the United Nations Interim Administration Mission in Kosovo were not reported by the missions to Headquarters. **The Advisory Committee shares the Board's concern over the decrease in cases of fraud and presumptive fraud and encourages the Administration to be proactive in its dealings with the missions to ensure that cases are reported in a timely and accurate manner. The Committee requests the Administration to confirm the final list of fraud and presumptive fraud cases to the Board of Auditors, as the Board has requested in paragraph 405 of its report.**